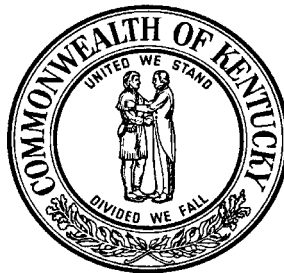


**REPORT OF THE AUDIT OF THE
GALLATIN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

March 26, 2005



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary of the Finance and Administration Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Nelson Brown, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the Gallatin County Sheriff's Settlement - 2004 Taxes as of March 26, 2005.

We engaged Tichenor & Associates, LLP, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Gallatin County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
GALLATIN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

March 26, 2005

Tichenor & Associates, LLP, has completed the audit of the Sheriff's Settlement - 2004 Taxes for Gallatin County Sheriff as of March 26, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$3,925,572 for the districts for 2004 taxes, retaining commissions of \$162,144 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,838,713 to the districts for 2004 Taxes.

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary of the Finance and Administration Cabinet

Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Nelson Brown, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

Independent Auditor's Report

We have audited the Gallatin County Sheriff's Settlement - 2004 Taxes as of March 26, 2005. This tax settlement is the responsibility of the Gallatin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Gallatin County Sheriff's taxes charged, credited, and paid as of March 26, 2005, in conformity with the modified cash basis of accounting.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary of the Finance and Administration Cabinet

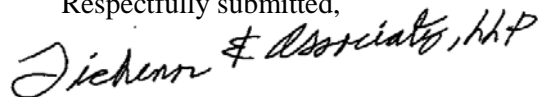
Honorable George W. Zubaty, Gallatin County Judge/Executive

Honorable Nelson Brown, Gallatin County Sheriff

Members of the Gallatin County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 29, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

Tichenor & Associates, LLP

Audit fieldwork completed -
September 29, 2005

GALLATIN COUNTY
NELSON BROWN, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

March 26, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 341,230	\$ 554,061	\$ 1,642,959	\$ 417,663
Tangible Personal Property	57,497	76,969	183,428	398,481
Intangible Personal Property				139,082
Fire Protection	659			
Increases Through Exonerations	3	4	9	4,805
Franchise Corporation	56,868	67,635	189,552	
Additional Billings	437	663	2,099	537
Limestone, Sand, and Mineral Reserves	816	1,239	3,928	990
Penalties	2,707	4,406	12,927	3,288
Adjusted to Sheriff's Receipt	(3)	3,571	1	4
Gross Chargeable to Sheriff	<u>\$ 460,214</u>	<u>\$ 708,548</u>	<u>\$ 2,034,903</u>	<u>\$ 964,850</u>
<u>Credits</u>				
Exonerations	\$ 12,198	\$ 17,128	\$ 41,472	\$ 18,032
Discounts	5,050	8,066	23,023	14,977
Delinquents:				
Real Estate	10,919	18,051	52,548	13,238
Tangible Personal Property	1,035	1,386	3,302	1,147
Intangible Personal Property				284
Uncollected Franchise	<u>163</u>	<u>237</u>	<u>687</u>	
Total Credits	<u>\$ 29,365</u>	<u>\$ 44,868</u>	<u>\$ 121,032</u>	<u>\$ 47,678</u>
Taxes Collected	\$ 430,849	\$ 663,680	\$ 1,913,871	\$ 917,172
Less: Commissions *	<u>18,599</u>	<u>27,723</u>	<u>76,555</u>	<u>39,267</u>
Taxes Due	\$ 412,250	\$ 635,957	\$ 1,837,316	\$ 877,905
Taxes Paid	412,101	635,736	1,836,602	877,720
Refunds (Current and Prior Year)	<u>149</u>	<u>221</u>	<u>714</u>	<u>185</u>
Due Districts				
as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

*See Next Page

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
NELSON BROWN, SHERIFF
SHERIFF'S SETTLEMENT – 2004 TAXES
March 26, 2005
(Continued)

* Commissions:

10% on \$	10,000	\$	1,000
4.25% on	1,967,946		83,638
4% on	1,934,339		77,374
1% on	<u>13,287</u>		<u>133</u>
Total Commissions: \$	<u>3,925,571</u>	\$	<u>162,144</u>

The accompanying notes are an integral part of this financial statement.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT

March 26, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of March 26, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

GALLATIN COUNTY
NOTES TO FINANCIAL STATEMENT
MARCH 26, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 16, 2004 through March 26, 2005.

Note 4. Interest Income

The Gallatin County Sheriff earned \$878 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Gallatin County Sheriff collected \$18,242 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Gallatin County Sheriff collected \$1,650 of advertising costs and \$435 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff pays the costs of advertising; therefore, the advertising costs and fees will be used to operate the Sheriff's office.

Note 7. 2001 Tax Escrow Account

The 2001 tax escrow account had a deposit of \$197 due the tax account for settlement of 2001 taxes. The account earned \$10 in interest in 2004. The remaining balance of \$2,169 was presumed abandoned and turned over to the Kentucky State Treasurer on April 12, 2005.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable George W. Zubaty, Gallatin County Judge/Executive
Honorable Nelson Brown, Gallatin County Sheriff
Members of the Gallatin County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Gallatin County Sheriff's Settlement - 2004 Taxes as of March 26, 2005, and have issued our report thereon dated September 29, 2005. The County Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Gallatin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

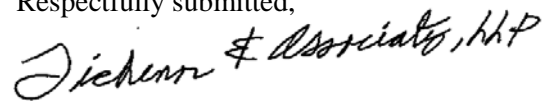
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Gallatin County Sheriff's Settlement - 2004 Taxes as of March 26, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

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Tichenor & Associates, LLP

Audit fieldwork completed -
September 29, 2005

